

21st January 2016

Luxury & Consumer Goods

Grandvision

Price EUR24.82

FY15 comparable growth of 4.1% in line with expectations

Fair Value EUR29,5 (+19%)

BUY

Bloomberg	GVNV NA
Reuters	GVNV AS
12-month High / Low (EUR)	27.7 / 19.8
Market Cap (EUR)	6,314
Ev (BG Estimates) (EUR)	7,069
Avg. 6m daily volume (000)	107.6
3y EPS CAGR	16.4%

Ahead of FY15 results due to be released on 16th March, GrandVision has reported this morning its FY15 comparable growth which amounted to 4.1%, bang in line with our expectations (BG: +4.1%e). This performance implies comparable growth of 2.2% in Q4 alone and this sequential deceleration vs. Q3 (+3.7%) was well flagged by investors given a challenging comparison base (+6.1% in Q4 14 vs. +3.8% in Q3) as the group carried out intense promotional campaigns last year. We are making no change to our forecasts, and are reiterating our Buy recommendation and FV of EUR29.5.

ANALYSIS

- By region and in Q4 alone: sales in the **G4** segment rose 3% same-store above our forecast of 1.8%, with a good performance across all markets. The unfavourable base effect was particularly strong in this segment as most of the promotional campaigns occurred in this region, such that the SSSG of 5.9% achieved in Q4 14 vs. +3.7% in Q3 14 justified this sequential slowdown in Q4.
- The comparison base was also more demanding in the **Other Europe** segment (+5.2% in Q4 14 vs. +2.2% in Q3 14), thereby explaining the 0.7% decline seen in Q4 15, falling short of our forecast at 2.6%e. GrandVision's banners faced soft activity in Italy and tough comps in Northern Europe last year.
- Sales in **Americas & Asia** increased by 5.6% same-store, matching our expectations (+5.7%e). Trends per region were broadly similar than in Q3, i.e. a high single-digit growth in Latin America while Russia was down mid single-digit. Naturally this segment's performance does not include the new U.S chain *For Eyes* which was acquired and consolidated as of 1st December.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.9%	1.4%	8.7%	-10.3%
Consumer Gds	-8.7%	-7.2%	-13.2%	-9.7%
DJ Stoxx 600	-10.8%	-11.1%	-20.8%	-11.9%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	2,817	3,211	3,455	3,618
% change		14.0%	7.6%	4.7%
Adjusted EBITDA	449.5	519.5	571.9	618.9
EBIT	288.6	361.6	402.6	442.0
% change		25.3%	11.4%	9.8%
Net income	161.2	222.1	250.8	280.0
% change		37.8%	13.0%	11.6%

	2014	2015e	2016e	2017e
Operating margin	10.2	11.3	11.7	12.2
Net margin	5.7	6.9	7.3	7.7
ROE	25.9	27.9	25.9	24.7
ROCE	17.6	21.0	23.1	25.3
Gearing	137.6	89.8	57.4	35.6

(EUR)	2014	2015e	2016e	2017e
EPS	0.70	0.89	0.99	1.10
% change	-	27.2%	11.1%	11.6%
P/E	35.5x	28.0x	25.2x	22.5x
FCF yield (%)	3.5%	3.9%	4.4%	4.8%
Dividends (EUR)	0.00	0.22	0.35	0.39
Div yield (%)	NM	0.9%	1.4%	1.6%
EV/Sales	2.6x	2.2x	2.0x	1.9x
EV/EBITDA	16.1x	13.6x	12.1x	10.9x
EV/EBIT	25.1x	19.5x	17.1x	15.2x

GrandVision Q4 15 and 2015 results:

Comparable Growth (%)	2014	Q3 15	9M 15	Q4 15	2015
G4	3.7	1.9	4.5	3.0	4.1
Other Europe	4.1	6.8	4.4	-0.7	3.2
Americas & Asia	9.4	6.5	6.9	5.6	6.6
Total GrandVision	4.3	3.7	4.7	2.2	4.1

Source: Company Data

- We are leaving our earnings forecasts unchanged.** On our estimates, adjusted EBITDA margin should expand 20bp to 16.2% in 2015. GM is expected to drop by 70bp (to 72.9%) due to: **(i)** the dilutive impact from acquisitions (lower profitability, the businesses acquired in Italy and Turkey have a higher share of sunglass sales => lower GM) and **(ii)** the price adjustments made by the group to improve its competitiveness. Yet, GrandVision should count on a more significant positive effect from operating leverage thanks to comparable growth, efficiency gains and economies of scale on opex thanks to the gradual implementation of the single platform (well advanced in G4, underway in other parts of the world).

VALUATION

- In view of this reassuring publication which was also in line with our expectations, we confirm our positive stance on the stock to play both structural catalysts in the optical market and the group's ability to make the most of its critical mass to win market share, generate substantial leverage to operating expenses and favour FCF generation (BG ests: EUR250-300m per year over 2015-17).
- GrandVision's 2016e PEG of (2.2x) shows a discount relative to Essilor and Luxottica (2.3x and 2.5x respectively) and offers a significant discount relative to its most direct peer, Fielmann (4.6x). We recommend investors take advantage of the current correction given the narrow free float (21%).

NEXT CATALYSTS

- GrandVision is to report its FY15 results on 16th March 2016.

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